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National Association of Purchasing Management®

Report On Business®

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Economic Decline Worsens: PMI Slips To 45.2%

Price Index Plunges to 43.1%

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

August Report

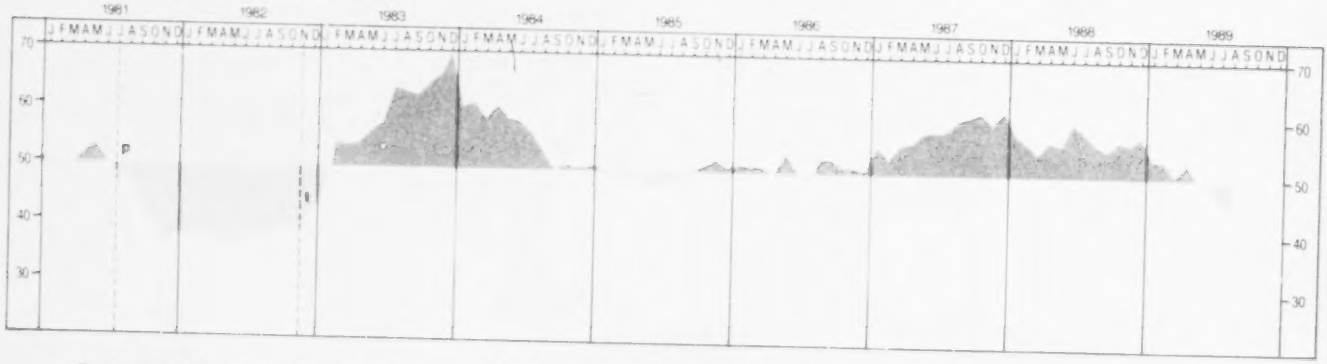
The economy declined in August for the fourth consecutive month, say the nation's purchasing executives in their latest ***Report On Business.*** The **Production** index fell for the second consecutive month and is the lowest since December 1982. **New Orders** also declined, but at a lesser rate than in July. **Inventories** declined for the eighth consecutive month as purchasers promptly adjusted to slowing **Production** and **New Orders. Employment** was lower for the seventh consecutive month, although at a lesser rate than last month.

The **New Export Orders** index slipped lower to 56.0%, down slightly from 56.5% in July, but still confirming that exports remain the strongest element of the economy. Of the 67.3% of members exporting, 23% reported better Export Orders, up from 22% in July. The 11% reporting worse Export Orders is up from 9% last month.

Prices plunged in August, the third consecutive month of decline. Perhaps more significant are the 29 items reported lower in price, up sharply from 21 items reported lower priced last month. Reflecting slowing demand, **Vendor Deliveries** were faster for the fourth consecutive month and the Vendor Deliveries index fell to its lowest level since May 1982.

The **Report** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The manufacturing economy continued down the path of decline for the fourth consecutive month. All indicators declined. The bright spots on the economic horizon continue to be relatively strong exports and sharply decreasing inflation."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index (PMI)

August	55.7	March '89	50.4
September	54.7	April '89	53.0
October	56.2	May '89	49.7
November	55.9	June '89	48.8
December	57.3	July '89	46.0
January '89	53.2	August '89	45.2
February '89	53.0		

The **Purchasing Managers' Index** (PMI) declined to 45.2% in August, down from 46.0% in July and the lowest reading since December 1982. This is the fourth consecutive decline registered in the manufacturing economy. A reading below 50 indicates that the manufacturing segment of the economy is generally declining; above 50, that it is generally expanding. Bretz added, "The PMI has averaged 49.9% for the first eight months of 1989. Past experience indicates that if this average were to continue for the balance of 1989, it would be consistent with real GNP growth of about 1.9%. However, the PMI average for the past four months (47.4%) is probably more consistent with real GNP growth closer to 1.1%. Before indicating negative real GNP, the PMI would have to drop below 44%."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

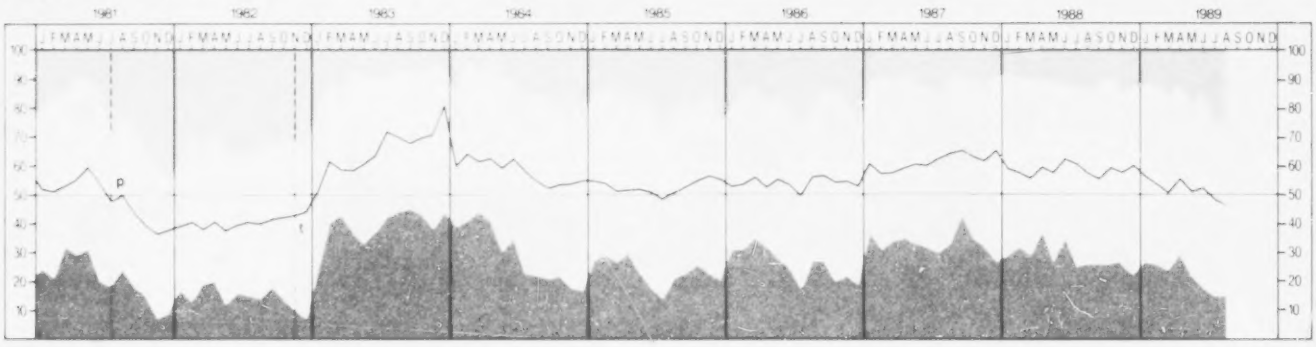
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("P" — July 1981) and trough ("T" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

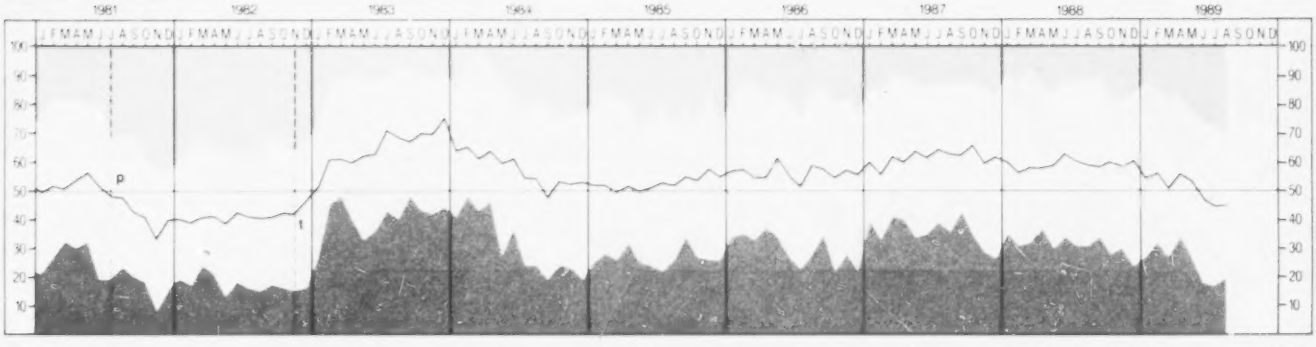
PRODUCTION



Production declined in August for the second consecutive month. The Production index dropped to 46.5%, down from 48.3% in July. At 46.5%, the Production index is at its lowest point since December 1982 (44.0%).

Production	%Better	%Same	%Worse	Net	Index
August	15	61	24	- 9	46.5
July	15	59	26	- 11	48.3
June	18	67	15	+ 3	52.4
May	22	59	19	+ 3	51.1

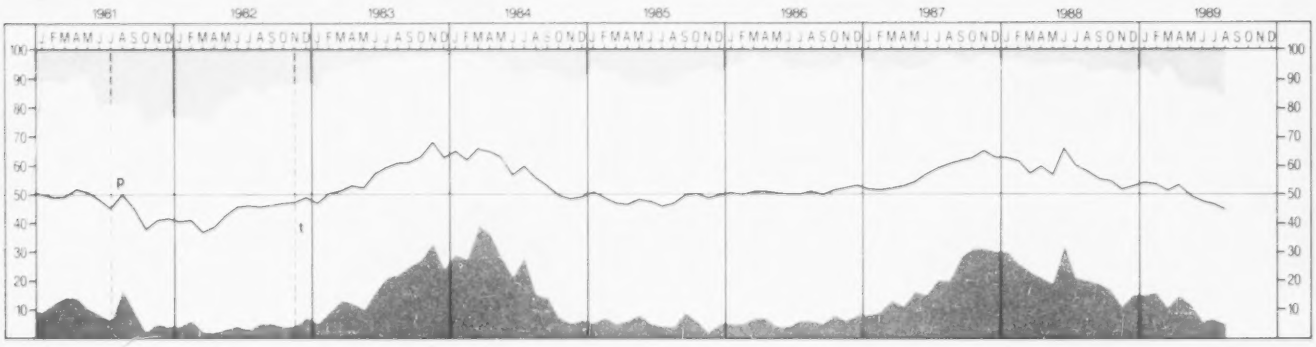
NEW ORDERS



New Orders declined in August for the third consecutive month. The New Orders index registered 45.1%, up slightly from 44.8% in July. Although declining at a somewhat lesser rate than last month, the New Order index is still the lowest since November 1982 (41.5%), which was both the trough of the previous recession and the beginning of our current economic recovery.

New Orders	%Better	%Same	%Worse	Net	Index
August	20	49	31	- 11	45.1
July	17	55	28	- 11	44.8
June	18	56	26	- 8	47.2
May	27	50	23	+ 4	53.4

VENDOR DELIVERIES



Vendor Deliveries were faster in August for the fourth consecutive month, reflecting the significant easing in demand for materials. The Vendor Deliveries index fell to 44.9%, down from 46.9% last month and the lowest since May 1982 (42.1%). Nevertheless, the number of commodities reported in short supply increased to 12, up from eight in July and 10 in June.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
August	5	78	17	- 12	44.9
July	7	79	14	- 7	46.9
June	6	80	14	- 8	47.5
May	12	75	13	- 1	49.3

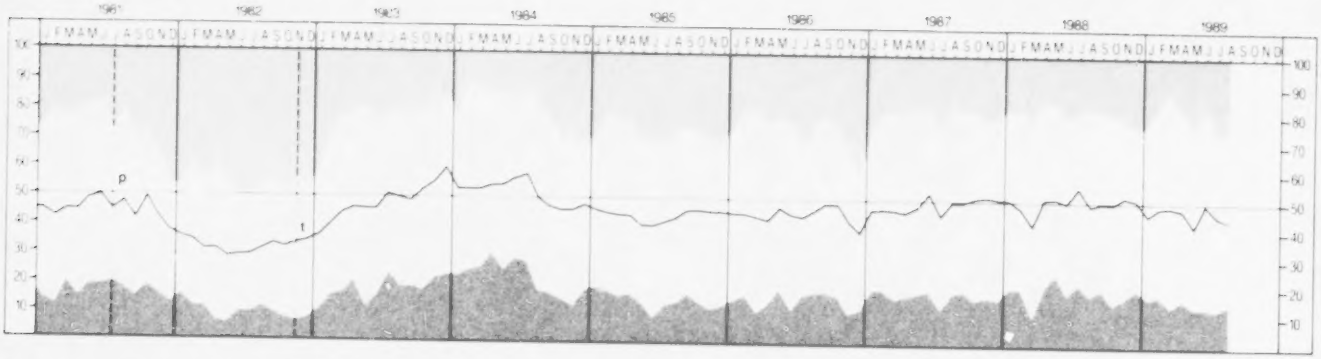
IN SHORT SUPPLY:

Castings (9th time in 12 months), **Stainless Steel** (1st time since March 1989), **Bleached Paperboard** (14th consecutive month, but reported off allocation), **Acrylic Acid** (13th time in 14 months; used in manufacturing plastics), **Caustic Soda Soda Ash** (27th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Sodium Chlorate** (3rd consecutive month; used heavily in paper-making and dyeing), **Titanium Dioxide** (25th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Freon** (2nd time in 3 months; used heavily as a refrigerant and as aerosol propellants), **Polyester** (7th consecutive month; reported to be on allocation), **Rayon** (7th time in 10 months), **Bearings** (13th consecutive month; a consequence of anti-dumping suits), **Motors** (3rd time in 5 months).

UP IN PRICE:

Bearings (13th time in 14 months), **Castings** (10th time in 13 months), **Capacitors** (used heavily in consumer and industrial electronic products), **Acetone** (a solvent for fats, oils, waxes, resins, rubber, plastics, lacquer and varnishes), **Caustic Soda Soda Ash** (33rd consecutive month), **Titanium Dioxide** (3rd time in 5 months; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), **Bleached Paperboard** (2nd consecutive month), **Woodpulp** (used in making all grades of paper and linerboard), **Milk Products.**

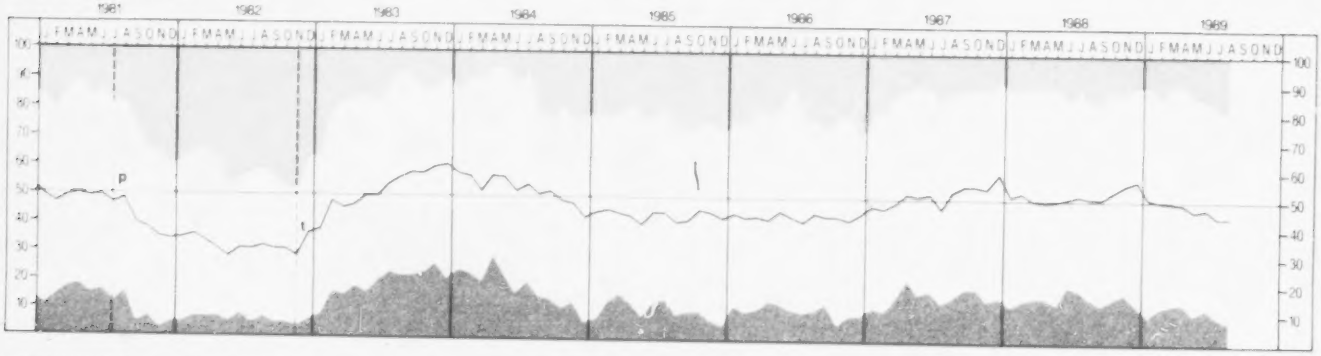
INVENTORIES



Inventories declined in August for the eighth consecutive month. The drop mirrored the significant improvement in Vendor Deliveries and considerably lower demand for materials. The Inventories index fell to 43.3%, down from the 45.5% reported last month as purchasers again avoided inventory overhang.

Inventories	%Higher	%Same	%Lower	Net	Index
August	15	59	26	11	43.3
July	13	60	27	14	45.5
June	14	68	18	4	49.7
May	14	61	25	11	41.9

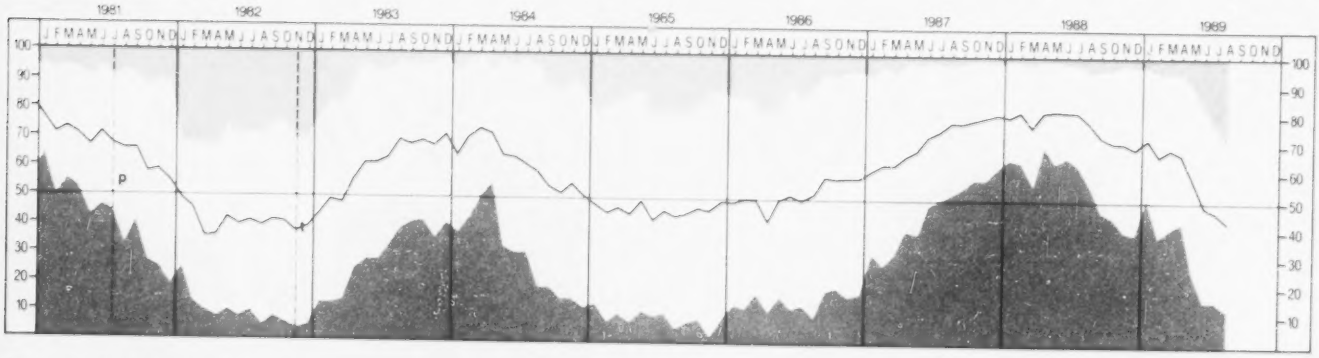
EMPLOYMENT



Employment declined in August for the seventh consecutive month, although the pace of the decline was not as great as in July. The Employment index registered 44.7%, up slightly from 44.4% last month, but still the lowest since December 1986 (44.5%), except for July.

Employment	%Higher	%Same	%Lower	Net	Index
August	8	72	20	12	44.7
July	10	72	18	8	44.4
June	13	72	15	2	47.4
May	11	75	14	3	46.6

COMMODITY PRICES



Prices declined in August for the third consecutive month. The Price index plunged to 43.1%, sharply lower than 46.9% in July and a world apart from January's 71.6%. The Price index at 43.1% is the lowest since April 1986 (42.8%). The number of commodities reported lower in price rose meaningfully to 29 from 21 in July while only nine items were reported higher priced.

Prices	%Higher	%Same	%Lower	Net	Index
August	13	57	30	- 17	43.1
July	16	61	23	- 7	46.9
June	16	66	18	- 2	48.5
May	25	65	10	+ 15	57.6

DOWN IN PRICE:

Aluminum (5th consecutive month), **Brass** (after being reported up in price in March for 2nd time in 4 months), **Copper** (3rd consecutive month), **Nickel** (3rd consecutive month; used heavily in making stainless steel, plating metals and batteries), **Zinc** (4th consecutive month; used heavily in metal alloys and as a protective coating for metal), **Steel Scrap,** (2nd consecutive month), **Ferroalys, Printing Paper,** (2nd consecutive month, after being reported up in price in April for 25th time in 28 months), **Alcohols,** (used as a solvent in laboratories and in industry), **Benzine** (3rd consecutive month; used heavily in making medicinal chemicals, dyes, varnishes, lacquers and resins), **Ethylene** (4th consecutive month; used heavily in making ethylene oxide, plastic resins and glycols), **Methanol** (7th time in 8 months; used heavily as a solvent and in synthesizing other chemicals), **Toluene** (2nd consecutive month; used heavily in making explosives, dyes and benzoic acid; as a solvent in paint and as a gasoline additive), **Phthalic Anhydride** (used heavily in making artificial resins, benjoic acid and phthalates), **Plasticizers** (used in making rubber and plastic resins), **Plastic Resins** (after being reported up in price in April for 20th time in 21 months), **Phenolic Resin** (3rd consecutive month; used in making plastic products), **Polyethylene Resin** (5th consecutive month; used heavily in making packaging materials and paper coatings), **Styrene** (4th consecutive month; used chiefly in making synthetic rubber, plastic resins and plastic), **Polystyrene** (used chiefly in making synthetic rubber, plastic resins and plastic), **Polyvinyl Chloride (PVC)** (2nd consecutive month; a rubber substitute in wire and cable coating, pipe, tubing, textile finishes and belting), **Polypropylene** (5th time in 7 months; used in making fabrics, carpets and yarns), **Plastic Products** (2nd consecutive month), **Tools, Sulfur** (used heavily in making matches, gunpowder, sulfuric acid, plastics, enamels and bleaching woodpulp), **Natural Gas** (2nd consecutive month, after being reported up in price in June), **Black Pepper, Corn, Soybean Oil** (used heavily in processed foods).

BUYING POLICY

Lead times for Production Materials shortened somewhat reflecting the improvement in Vendor Deliveries. The number of purchasers reporting lead times of 30 days or less for Production Materials was 55%, up from 52% in July and June.

Lead times for Capital Expenditures remained virtually unchanged from July. The number of members reporting lead times in the important 6 months and longer category was unchanged from last month at 52%. Nevertheless, the 52% is the fewest since June 1988 (49%).

Lead times for Maintenance, Repair and Operating (MRO) Supplies shortened again for the third consecutive month. Members reporting buying hand-to-mouth increased to 48%, up from 44% last month, 41% in June and 37% in May. The 48% is the most since January 1987 (50%).

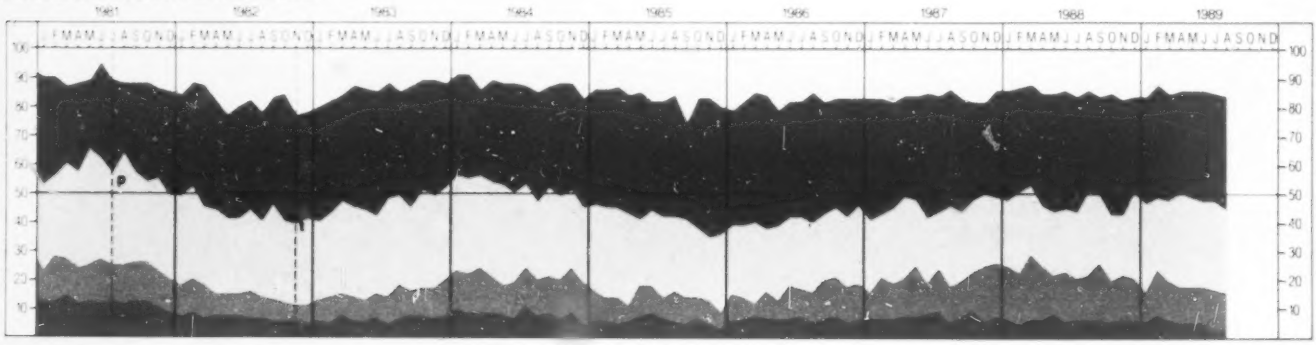
Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos and Longer
August	16	39	29	13	3
July	15	37	31	14	3
June	14	38	30	13	5
May	14	37	31	13	5

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos and Longer
August	12	6	12	18	52
July	12	6	13	18	52
June	13	7	10	17	53
May	13	3	12	17	55

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
August	48	36	13	1	2
July	44	42	11	3	0
June	41	44	12	3	0
May	37	47	13	2	1

PRODUCTION MATERIALS



Commodity Report
August 1989

STEEL — Prepared by the NAPM Steel Committee. James Lawrence, Commercial Intertech, Youngstown, Ohio.

The tide has turned on the domestic steel industry. The seller's market of the past is changing to a buyer's market. In most categories of U.S. steel purchasing demand has softened or noticeably declined. Automotive sales are down by double-digit percentages in recent months. Heightened interest rates have had their effect, and national and free-world economies are in a lull which appears to be more than seasonal. Downward price adjustments and much shortened lead times indicate a definite slump in steel's sales projections for the second half of 1989.

The NAPM Steel Buyers Survey reports an increasing number (52%) indicate that steel receipts for the next three months should be less than current receipts. Expect backlogs and incoming orders to decrease rather than increase. At a three-year high, 82% of respondents expect no steel shortages over the next six months.

Labor negotiations with four major integrated steel producers have been settled, all on an ascending labor cost trend, and assure the U.S. of ample production capacity for the present. A question remains whether sufficient demand exits to fill that capacity. A possibility lingers that many profitable basic steel companies may find their profits squeezed.

Although the Voluntary Restraint Agreement (VRA) has been renewed with modifications, the leading indicators of a resurgence in the domestic steel industry are still the value of the U.S. dollar and domestic interest rates. A drop in both indicators or in the dollar alone would help by impeding imports and aiding the export of American-made steel.

A gradual but significant drop in world spot-market prices for common grades of steel indicates a growing world-wide slow down in demand creating foreign steel activity in the U.S.

The Bush Administration's promise to discourage other governments from subsidizing their steel producers and consequently dumping steel on the world and U.S. markets is an ambitious but very optimistic venture, especially inside the two and one-half year extension period of the VRA's.

On the plus side is the improvements domestic steel made recently in efficiency and productivity. These much leaner suppliers also appear to be making giant strides in rededication to quality of product and customer service. The dramatic changes made over the past few years are evidence revamping of the U.S. Steel industry is well underway.

ENERGY — Prepared by NAPM Energy Committee. Chair, Howard T. Perley, C.P.M., International Paper, Memphis, TN.

PETROLEUM PRODUCTS: Crude oil prices eased from an average of $20 BBL to $18 BBL. Milder summer temperatures produced an over supply of Residual Fuels and Distillates, and prices have fallen $1–$2 BBL. Stricter environmental restrictions and enforcement, however, will result in a higher premium for the lower sulfur fuels.

NATURAL GAS: Be prepared for somewhat worse gas curtailments this winter. U.S. gas reserves have diminished steadily in recent years. Deliverability problems on interstate pipelines could result from the higher percentage of gas bought month to month as spot purchases (both by end users and local gas utilities). Review your contingency curtailment plans before winter.

ELECTRIC POWER: Under ordinary circumstances, electric power rates should increase by considerably less than the inflation rate. Fuel costs remain relatively stable and little new construction is planned. Buyers should be aware of the effect various proposals for acid rain legislation may have on the rates of specific utilities.

COAL: With acid rain legislation finally nearing reality, these are the best and the worst of times for coal producers — and buyers. Coal could soon be divided into two distinct markets. Low sulfur, low ash, compliance coal will see a marked increase in demand. The high sulfur, "dirty" coals will find fewer willing buyers.

Average prices for coal will probably follow GNP inflation quite closely. However with the prospect to rapid increases in the prices of compliance coal, long-term contracts with limited escalation rates should be of interest to these buyers. Better prices may be available later for other coals in lesser demand.

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Note: The next issue of *REPORT ON BUSINESS* will be available October 2, 1989.